

## A Good Start for 2019 But Impairments Weighed on Earnings

### Analyst

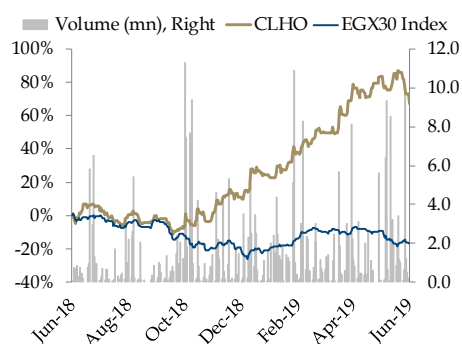
**Ahmed Abdelnaby**

Vice President, Research

[ahmedabdelnaby@shuaasecurities.com](mailto:ahmedabdelnaby@shuaasecurities.com)

+202 2673 5996

### Stock chart and data



Last Price (EGP)	6.25
52 Week Range (EGP)	3.2 - 7.06
6M-ADVT (EGPmn)	9.47
Market Cap (EGPmn)	10,000
No. of Shares O/S (mn) / Free float	1,600.0 / 30.6%

Cleopatra Hospital Co. (CLHO) delivered a good set of operational results in Q1 2019 with cases served reaching 235,544 (+0.1% y/y). Revenues y/y growth was in double digits, driven by better pricing, and margins expanded significantly. However, earnings growth was halted by non-recurring impairments. Expansions plan is on track; one of the two hospitals planned to join the group is now onboard, and so is the first of the two polyclinics planned for 2019.

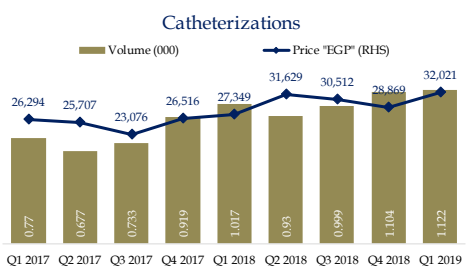
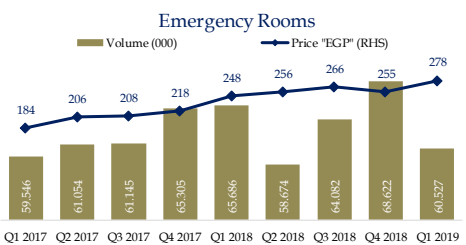
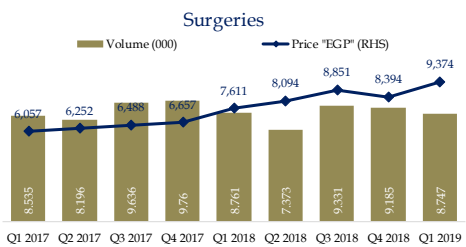
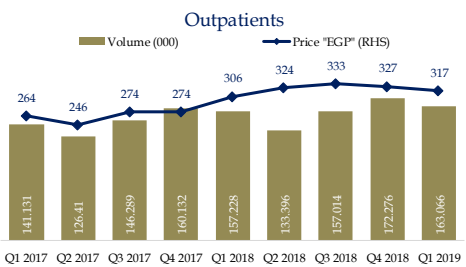
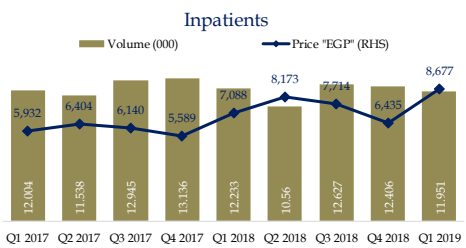
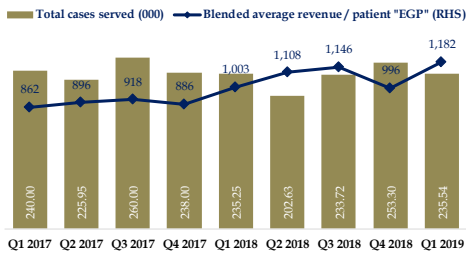
- Revenues showed a healthy growth on a better revenue mix; impairments weighed on earnings:** CLHO's Q1 2019 revenues increased by 20% y/y (+6% q/q) to EGP416mn (21% of our 2019 estimates of EGP1.99bn). Net income increased marginally by 0.4% y/y (-36% q/q) to EGP54mn (13% of our 2019 estimates of EGP402mn). However, we note that CLHO's net income was affected by a non-recurring impairment charge of EGP31.7mn in Q1 2019 (+273% y/y) resulting from claims related to transactions with some medical insurance companies back in 2016 and 2017. According to management, this impairment is part of the company's strategy to move away from clients with weak credit profiles, which we believe should help improve receivables collection going forward. Interest expense decreased significantly by 74% y/y to EGP3.2mn as a result of CLHO's strategy to pay its outstanding debts early. Excluding impairments, net profit would have increased by 38% y/y to EGP85mn. Meanwhile, Q1 2019 gross profit margin expanded to 37.1% (+325bps y/y) as the cost of revenues increased to EGP262mn (+14% y/y). Adjusted EBITDA margin also expanded by 339bps y/y to 30.1% in Q1 2019, while net margin contracted by 249bps to 12.9% (but expanded by 269bps y/y to 20.5%, excluding impairment).
- Revenue growth was mostly driven by favorable pricing:** Revenue y/y growth in Q1 2019 was largely driven by higher prices across all the five main business segments for the second quarter in a row. This is in line with the management strategy to apply smart increases in services prices. **Inpatients** revenue per stay grew 22% y/y to EGP8,677, **outpatients** +4% to EGP317, revenue per **surgery** +23% to EGP9,374, **emergency rooms** revenue per visit +12% to EGP278, and revenue per **catheterization** +17% to EGP32,021.

### Financial summary

EGPmn, except per-share	2016a	2017a	2018a	2019e	2020e	2021e
Revenue	864	1,127	1,456	1,992	2,579	3,484
EBITDA	174	213	363	503	714	987
Net Income	76	106	295	402	534	752
Revenue Growth (%)	110%	30%	29%	37%	29%	35%
EBITDA Growth (%)	66%	23%	70%	39%	42%	38%
Net Income Growth (%)	14%	38%	179%	36%	33%	41%
EBITDA margin	20.1%	18.9%	24.9%	25.3%	27.7%	28.3%
Net margin	8.8%	9.4%	20.3%	20.2%	20.7%	21.6%
Net Debt (Cash)	(61)	(655)	(858)	(903)	(1,179)	(1,747)
EPS (EGP)	0.53	0.51	0.18	0.25	0.33	0.47
BVPS (EGP)	2.83	0.83	1.00	1.24	1.56	1.90
DPS (EGP)	-	-	-	-	0.12	0.17
ROAE	18%	10%	19%	21%	23%	26%
ROAA	7%	5%	12%	15%	16%	19%
PER (x)	4.7x	9.5x	25.0x	24.9x	18.7x	13.3x
PBV (x)	0.9x	5.8x	4.6x	5.0x	4.0x	3.3x
EV/EBITDA (x)	2.5x	33.4x	17.9x	18.1x	12.3x	8.4x
Dividend Yield	-	-	-	-	2.0%	2.8%

Source: Company reports, SHUAA Securities Egypt.

## Cases served & blended average revenue / patient historically



- Volume growth was mixed across business segments:** On the volume side, **catheterizations** (+10% y/y to 1,122) and **outpatients** (+4% to 163,066 visits) were the only two segments that showed a y/y increase. Meanwhile, **inpatients** (-2% y/y to 11,951) and **emergency rooms "ERs"** (-8% y/y to 60,527 visits) witnessed a decrease, whereas **surgeries'** volume (-0.2% y/y to 8,747) was almost flat. Based on the main five business segments, blended average revenue per patient increased 18% y/y (+12% q/q) to EGP1,182 in Q1 2019 offset the flat growth in total cases served (+0.1% y/y to 235,544). The below table depicts revenue growth and contribution by segment. Charts to the left illustrate segments' volumes and pricing trends.

- Expansion plan updates:** During Q1 2019, CLHO provided some updates regarding its expansion plan as follows:
  - Queens Hospital** operations is officially added to the group which will add 50 beds to the group's capacity with a plan to add more medical specialties to the hospital in the future (currently the hospital is specialized in OB-GYN services only).
  - Beni Suef Hospital** will be the first expansion outside **Cairo** with 150 beds and five operating rooms expected to be added to the group's capacity. CLHO will set up a JV with **Taaleem Co. (Al-Nahda Universities)** to build and operate the hospital with the majority stake to be held by CLHO. Conceptual and schematic designs are agreed, and CLHO will work in the coming months to sign the project's contract.
  - Polyclinics** expansion strategy showed the soft opening of the New Cairo unit in mid-February 2019 which enjoyed a strong patients flow and healthy utilization rates. However, management did not consolidate it in Q1 2019 results. As for the second unit in west Cairo, all set-up works are finished, and management is currently selecting consultants who will offer the medical services. Both units' results will be consolidated in Q2 2019.
  - El-Katib Hospital's** acquisition of the operations, which will add 100 beds to the group's capacity, is still underway. The hospital's real estate assets have been acquired back in December 2018.
- Neutral / Low Risk maintained:** With results coming with no major surprises to our operational estimates, we maintain our Neutral / Low Risk, with 12M PT of EGP6.78/share (+8.5%).

### Results summary

EGPm	Q1 2019	Q4 2018	q/q	Q1 2018	y/y
Inpatients (EGPmn)	103.70	79.83	30%	86.71	20%
% of total revenues	25%	20%		25%	
Surgeries (EGPmn)	81.99	77.10	6%	66.68	23%
% of total revenues	20%	20%		19%	
Outpatients (EGPmn)	51.74	56.33	-8%	48.11	8%
% of total revenues	12%	14%		14%	
Emergency Rooms (EGPmn)	16.83	17.50	-4%	16.29	3%
% of total revenues	4%	4%		5%	
Catheterizations (EGPmn)	35.93	31.87	13%	27.81	29%
% of total revenues	9%	8%		8%	
Other segments	125.81	131.39	-4%	101.61	24%
% of total revenues	30%	33%		29%	
<b>Revenue</b>	<b>416</b>	<b>394</b>	<b>6%</b>	<b>347</b>	<b>20%</b>
<b>COGS</b>	<b>(262)</b>	<b>(246)</b>	<b>7%</b>	<b>(230)</b>	<b>14%</b>
<b>Gross Profit</b>	<b>154</b>	<b>149</b>	<b>4%</b>	<b>117</b>	<b>31%</b>
Gross Profit Margin	37%	38%	-63 bps	34%	325 bps
Adj. EBITDA*	125	122	3%	93	35%
Adj. EBITDA Margin*	30%	31%	-74 bps	27%	339 bps
<b>Net Income after minorities</b>	<b>54</b>	<b>84</b>	<b>-36%</b>	<b>53</b>	<b>0.4%</b>
<b>Net Margin</b>	<b>13%</b>	<b>21%</b>	<b>-846 bps</b>	<b>15%</b>	<b>-249 bps</b>

\* Adjusted for provisions, impairments, and acquisition expenses.  
Source: Company reports, SHUAA Securities Egypt.

Source: Company reports, SHUAA Securities Egypt.

## Disclosure Appendix

**METHODOLOGY:** When setting an investment and risk ratings, we utilize all publicly-available sources to build an understanding of the issuer's business model and hence its intrinsic value based on one or more valuation methods. To reach a valuation, we assess factors that we deem relevant, including—but not limited to—macro, sector, and company-specific aspects.

**INVESTMENT RATING:** Depending on each issuer's business model, we may use (1) an income approach, (2) a markets-based approach, (3) an asset-based approach, and/or (4) sum-of-the-parts approach. In certain cases where we do not have our own financial and valuation models, we may present the consensus rating/view. For all securities actively covered, we assign one of three investment ratings (Overweight, Neutral, or Underweight) depending on the security's expected total return (price + yield) over a 12-month investment horizon as compared to the security's Required Rate of Return (RRR) as calculated using the Capital Asset Pricing Model (CAPM) and adjusted for the Risk Rating we assign to the security. Please read below for more details about our Risk Rating. Our assigned fair values are subjective and are estimates of the analysts where the security(ies) covered will trade within the next 12 months. The assigned investment rating/fair value is only valid for a maximum of three months from the date it was set.

**RISK RATING:** Based on the overall risk profile of each issuer/security covered, we assign one of three risk ratings (High, Moderate, or Low). The risk rating is a function of a weighted assessment of the issuer's (1) sector, (2) corporate profile, and (3) security and related volatility. The assigned risk rating is only valid for a maximum of three months from the date it was set.

## Analyst Certification

I (we), **Ahmed Abdelnaby**, Vice President, Research, employed with SHUAA Securities Egypt, and author(s) to this document, hereby certify that all the views expressed in this research report accurately reflect my (our) views about the subject issuer(s) or security(ies). I (we) also certify that no part of my (our) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or view(s) expressed in this report. Also, I (we) certify that neither myself (ourselves) nor any of my (our) close relatives hold or trade into the subject securities.

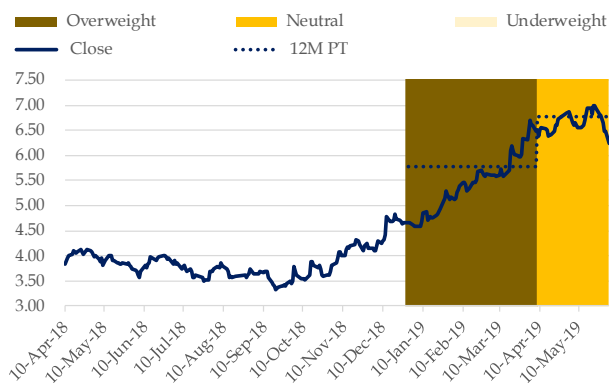
## Head of Research Certification

I, **Amr Hussein Elalfy**, Head of Research of SHUAA Securities Egypt, confirm that I have vetted the information and all the views expressed by the Analyst in this document about the subject issuer(s) or security(ies). I also certify that the author of this document, has not received any compensation directly related to the contents of the document.

## Return / Risk Profile

	If Total Return is ...	Investment Rating		
		Overweight	Neutral	Underweight
Risk Rating	Low	Higher than RRR	Between RRR and 20% of RRR	Lower than 20% of RRR
	Moderate	Higher than RRR	Between RRR and 40% of RRR	Lower than 40% of RRR
	High	Higher than RRR	Between RRR and 60% of RRR	Lower than 60% of RRR
	Not Rated (NR)	We have decided not to publish a rating on the stock due to certain circumstances related to the company (i.e. special situations).		
	Not Covered (NC)	We do not currently cover this stock or we are restricted from coverage for regulatory reasons.		

## Investment Rating & Price Target History



### Rating history

From	To	Date	Analyst
NC	Overweight	30-Dec-18	Ahmed Abdelnaby
Overweight	Neutral	8-Apr-19	Ahmed Abdelnaby

### 12-month price target history

From	To	Date	Analyst
None	5.78	30-Dec-18	Ahmed Abdelnaby
5.78	6.78	8-Apr-19	Ahmed Abdelnaby

## Contact Details

☎ +(202) 16331  
📍 143, Bank Zone, 5th Settlement,  
New Cairo, First Abu Dhabi Bank Building (6<sup>th</sup> Floor)  
Cairo, Egypt

## Disclaimer

This document has been issued by SHUAA Securities Egypt for informational purposes only. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment or subscribe to any investment management or advisory service. SHUAA Securities Egypt has based this document on information obtained from sources it believes to be reliable. It makes no guarantee, representation or warranty as to its accuracy or completeness and accepts no responsibility or liability in respect thereof or for any reliance placed by any person on such information. Accordingly, no representation or warranty, express or implied, is or will be made and no responsibility or liability is or will be accepted by SHUAA Securities Egypt or by any of its respective officers, employees, agents or affiliates in relation to the accuracy, completeness or fairness of the information or opinions contained herein or any other written or oral information made available to any interested party or its advisers and any such liability is expressly disclaimed. All opinions expressed herein are subject to change without notice. This document may not be reproduced or circulated without the prior written consent of SHUAA Securities Egypt. SHUAA Securities Egypt is regulated by the Financial Regulatory Authority under license number 91.

## Issuer of Report

SHUAA Securities Egypt  
Website: [www.shuaasecurities.com](http://www.shuaasecurities.com)

## Copyright

Copyright © 2019, SHUAA Securities Egypt, ALL RIGHTS RESERVED. No part or excerpt of this document may be redistributed, reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of SHUAA Securities Egypt.